Long-term care insurance ought to be an easy sell. Aging parents can buy it to cover the costs for a lengthy nursing home stay, for assisted living or for a health aide at home a few hours each day.

But something seems dreadfully wrong in the insurance market for long-term care.

In 2009, there were fewer new individual buyers of the insurance than in any year since Limra, a market research firm, began tracking the data in 1988. It was also the first year that the number of existing policies did not increase.

This year, big players in the industry like John Hancock and MetLife have announced their intent to raise annual premiums by up to a jaw-dropping 40 percent if state regulators let them.

You would think that there would be far more than seven million policyholders, given that costs for long-term care could easily reach seven (yes, seven) figures per individual 20 or 30 years from now.

As you dig deeper, however, you discover at least nine things standing in the way of consumers purchasing coverage, all of which are outlined below. They’re all complicated, with some reflecting outright ignorance and odd rationalizations rooted in emotion. But there is also a great deal of justified skepticism about the long-term care insurance industry.

So consider this a test of whether you’re ultimately delusional about your risks and the cost of being wrong.

**MEDICARE COVERAGE** According to a 2009 Prudential survey, 37 percent of people think that Medicare will cover their long-term care costs.

But it won’t. Medicare may pay for a nursing home stay under certain circumstances, but it won’t cover long-term care there. The same thing is true with at-home care.

**THE ODDS OF NEEDING CARE** Why invest in insurance if there’s a chance you’ll never need it? It’s a reasonable question, so consider your odds.
The consulting firm Milliman, which does a lot of work for the long-term care insurance industry, thinks your odds aren’t so great. For people age 65 and older who have long-term care insurance, there is a 45 percent chance of making a claim, though it ranges from 30 to 56 percent depending on gender and marital status.

Using data from long-term care insurance policies that have no spending limits, Milliman also estimates that once you’ve made a claim, the chances that you will continue needing care for more than three years is at least 13.9 percent. There is a 4.3 percent chance of it exceeding five years.

**SELF-FUNDING COST** How much might it cost to pay for care yourself? Last week, MetLife, a big seller of long-term care insurance, released new survey data suggesting that the average rate for a private room in a nursing home was now $229 a night, or $83,585 a year, on average, though it can range widely by geography. Average costs for home health aides are $21 an hour.

And what is the true cost of being among the unlucky here if you roll the dice and buy no insurance at all? Ralph Leisle, who runs a software and consulting company focused on long-term care insurance, tried to figure this out in an article in The Journal of Financial Service Professionals in January 2008.

He took a 55-year-old couple and assumed one of them would need four years of care starting at age 75. The current cost of care was $200 a day and would rise by 5 percent annually.

Including the opportunity cost of lost investment gains (6 percent after taxes) from money that ended up being spent on care instead, the total cost without insurance would be about $1.5 million.

Scary, right? Perhaps you could drain your retirement accounts and sell your home or take out a reverse mortgage to pay for the $800,000 in care that was part of this assumption, if it came to that. But then there might be little or nothing left to pay the expenses of the surviving spouse.

**COUNTING ON MEDICAID** Medicaid will pay for nursing home costs, and depending on your state, some other types of long-term care, too. But first, you have to qualify, and that usually means spending most of the money you have.
Still, plenty of people do qualify because they have very little or no savings. Others count on qualifying someday if they need a lot of long-term care. Amy Finkelstein and Jeffrey R. Brown, two economists who have studied long-term care insurance, call this an “implicit tax” on private long-term care insurance. After all, why buy private insurance when Medicaid would pay for much of what the insurance company is paying for?

While many people probably think this way, Medicaid may not offer the same choices that a long-term care policy will. The best or closest nursing home facility may not take Medicaid patients, for instance, or have room for any when you need it. Program restrictions will only grow over time, given the precarious state of the federal and state budgets that pay for it.

Plus, it is not many people’s idea of a good way to spend your final years. “I don’t think anybody who has worked and saved for a lifetime to accumulate assets now looks and says ‘Great, how do I end my life on welfare?’” said Jesse Slome of the American Association for Long Term Care Insurance, a membership organization for people who sell the policies.

**THE COST TODAY** In the first half of 2010, individuals buying through an insurance agent or financial adviser paid a $2,180 annual premium for common plans. Given the price tag, it’s easy to see why shoppers might have demurred as the economy swooned over the last two years.

And for people who are struggling, paying for health insurance in the here and now is probably a higher priority.

**FUTURE COSTS** Long-term care insurance premiums aren’t like those for, say, term life insurance. They can go up. The fact that they didn’t rise very often until recently led many agents to lead customers to believe (or buyers to fool themselves into believing) that they would never go up.

But now, stalwarts like John Hancock and MetLife are trying to raise rates by large amounts, even as others like New York Life have never had a premium increase.

Rochelle Fulleton, a 73-year-old who lives in Camarillo, Calif., and bought long-term care insurance when she was in her 50s, recently received a letter from MetLife letting her know that it intended to raise her $2,968 annual premium by 39 percent.

“This is an assault on the most vulnerable part of the population,” she said. “I understand that they don’t want to pay the bill, but they are the ones who wrote the policies and they have actuarial tables and they knew about inflation costs in medical care even back then.”
A MetLife spokeswoman said that the company actually had not anticipated the costs. “While we are sensitive to any rate increase that impacts our policyholders, assumptions used to initially price many long-term care insurance products have changed,” Karen Eldred said in a statement. She added that the company misjudged interest rates, life expectancy and the number of people who would drop their policies.

The good news here is that the increase seems to be necessary in part because long-term care itself is so good. People are staying alive longer than companies predicted, and they’re continuing to pay their premiums for longer periods of time, too, in order to remain eligible for that care.

But the bad news is that a price increase of this magnitude suggests that some companies had no idea how to set prices on many of their policies. If they have it wrong today too, you could sign up for a $2,500 premium at age 60 and end up paying two or three times as much for it when you’re 85 and on a fixed income.

If you have no interest in turning your money over to companies who have gotten it so wrong, I salute you. But if the insurance company professionals can blow the projections, you certainly can too. So you had better have a plan, and a backup plan, too, for when your forecasts inevitably go awry.